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ZNR UUUUU ZZH (CCY ADX0B644C3 MSI0840 611  
R 160928Z JUL 08  
FM AMEMBASSY ABU DHABI  
TO RUEHC/SECSTATE WASHDC 1215  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE  
RUEHLO/AMEMBASSY LONDON 1283

UNCLAS ABU DHABI 000815

SIPDIS

C O R R E C T E D C O P Y (FOR TEXT)

E.O. 12958: N/A

TAGS: [ENGR](#) [ECON](#) [AE](#)

SUBJECT: BP ENERGY PRESENTATION IN ABU DHABI

¶1. Summary: on July 10, 2008, Mark Finley, Head of Energy Analysis for BP P.L.C. in London, delivered a presentation on BP's annual statistical review of world energy. In attendance were representatives from ADNOC, Taqa, the British Embassy, Canadian Embassy, and the media. BP expressed the view that high and volatile energy prices are a reflection of tighter supply and demand fundamentals at work in the marketplace. End summary.

¶2. BP, in assessing the data garnered for 2007, concludes that speculation is not driving energy price increases. Rather, speculation is a symptom of the problems born of high and volatile prices and may be adding momentum to a trend that is already in place. Changing expectations of the fundamentals of supply and demand, namely concerns over future instability in fuel inventories and production, are at work.

¶3. Primary energy consumption growth is linked to a global upturn in real GDP growth. Sustained economic growth in the 2000s, as was seen in the 1970s, is driving demand which is in turn contributing to higher prices. Rapid price increases have led to a slowdown in global consumption growth. World energy consumption grew by 2.4 per cent in 2007, marking a slower rate than the previous year. BP explains that this sustained upward growth trend, present even in light of higher prices, is reflective of above average real economic growth, particularly in non-OECD countries, which accounted for 2/3 of global energy consumption growth. Emerging economies have and will continue to account for a larger share of consumption growth (partially attributable to the large role of government backed fuel subsidies, which shield consumers from price hikes, and the prevalence of energy intensive industries).

¶4. Inventories fell in the second half of 2007 following OPEC production cuts. (Note: IEA cites OPEC production over the past 9 months as ahead of the same period in 2007.) Inventories are currently at or slightly below the historical average. However, the demand function has shifted as customers are willing to pay more to hold on to oil for the future. BP highlighted the direct correlation between the future and today as inventories explaining that there is not a lot of new supply coming onto the market.

¶5. Increased contributions from the U.S., Canada, Angola and Iraq offset OPEC production cuts and lower output in Norway and Mexico. Incentives for investment in onshore production in the U.S. were made available but the volume of increase in U.S. fuel production remained relatively quite small. Russia's output declined, but BP suggested that if the Russian investment regime was changed, Russia could support higher production levels. Non-OPEC production growth levels continued to be disappointing due to massive product delays, but there remains a tremendous scope for efficiency improvements going forward.

¶6. In 2007 global refining margins hit an all time high and refining capacity is rising more quickly than production levels.

¶7. Oil: BP forecasts a continued slowdown in global oil consumption

growth (Note: OPEC, in its 2008 World Economic Outlook, also forecasts declining consumption rates. OPEC posits that demand for its oil could fall to 31mb/d in 2012 as supply outpaces demand. The International Economic Agency also forecast that demand in advanced economies appears to be losing strength. The IEA agrees that demand in emerging economies will continue to rise.). Non-OECD countries that subsidized imports boasted rising consumption rates. However, with current price levels the ability to maintain these subsidies is questionable. China recorded the weakest growth in oil consumption growth since 2002, 7.7 per cent, but still accounted for half of the aggregate growth figure. North American consumption recorded a growth rate of 1.6 per cent which was a substantial increase over weaker figures in 2006. Eu energy consumption declined by 2.2 per cent with German consumption showing the largest decline.

¶8. Natural gas: Consumption increased at a rate above the 10 year average, 3.1 per cent, but this growth was constrained to North America, Africa, and Asia Pacific. The U.S. alone accounted for 50 per cent of this growth, reflective of a cold winter and demand for power generation. However, most fuel switching, which contributed to the rise in natural gas consumption growth, is now complete and will not be a major factor in 2008. Europe, which weathered a relatively warm 2007 winter season, saw consumption decline by 1.6 per cent. Production rose by 2.4 per cent with the U.S. claiming the largest role, as it increased output by 4.3 per cent. EU production growth declined by 6.4 per cent- the UK's production dropped by 9.5 per cent and there was a small dip in Russian output. Prices of natural gas increased substantially worldwide, except for in Europe and growth in international trade was weak at 2.3 per cent. After the earthquake in Japan, importers of LNG turned to the Middle East and Atlantic basin to meet growing demand.

¶9. Coal: for the 5th year in a row, coal consumption growth, 4.5 per cent was the fastest among the fossil fuels and was widespread. China recorded the lowest growth in coal consumption since 2002 (still representative of 2/3 of the total growth figure). Both India and the OECD countries posted above average growth rates. The majority of most coal produced is still consumed in its host country. Coal reserves are sufficient, at current production levels, to last for 130 years.

¶10. Nuclear energy: Due in part to extended maintenance of facilities in Germany and an earthquake in Japan leading to the closure of the largest nuclear power plant in the world, nuclear power production declined by 2.2 per cent, the largest drop registered to date. BP views the largest challenge for nuclear energy as maintaining its market share which currently sits at 6 per cent.

¶11. Other fuels: Production capacity is largely limited by geographical constraints, but it increased slightly while renewable energy witnessed rapid growth rates throughout the year. Biofuels, representative of 7 per cent of market share, recorded 30 per cent consumption growth. However, their challenge remains finding a feedstock that does not compete with the food supply.

¶12. Conclusion: The BP presentation concluded that reserves are not running out and there is no looming resource constraint. The role that political instability and unrest play in the market was the focus of ADNOC's questions during and after the presentation. Audience discussion centered on the civil unrest in Nigeria, potential strike on Iran, and unrest in Venezuela.  
Quinn